

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

KEVIN F. MCKENNA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

TABLE OF CONTENTS

	Page Number
Independent Auditor's Report	1
Balance Sheets	2
Statements of Revenues and Expenses and Changes in Fund Balance	3
Schedules of Expenses	4-5
Statements of Cash Flow	6
Notes to Financial Statements	7-8

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
and Members
**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

We have audited the accompanying balance sheets of Memorial Northwest Homeowners Association as of December 31, 2006 and 2005, and the related statements of revenues and expenses and changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Memorial Northwest Homeowners Association as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Association has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.

The schedule of expenses on pages 4-5 is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements.


Spring, Texas
June 8, 2007

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Balance Sheets

December 31, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Cash, Including Interest Bearing Deposits	\$380,261	\$464,411
Assessments Receivable	32,012	29,774
Collection and Legal Fees Receivable	16,624	9,582
Allowance for Uncollectible Accounts	(9,500)	(9,500)
Income Tax Refund Receivable		154
Prepaid Insurance	<u>9,710</u>	<u>8,057</u>
TOTAL ASSETS	<u><u>\$429,107</u></u>	<u><u>\$502,478</u></u>
 LIABILITIES AND MEMBERS' EQUITY		
 LIABILITIES		
Accounts Payable	\$11,698	\$10,838
Payroll Taxes Payable	1,453	1,223
Income Tax Payable	1,577	
Assessments Received in Advance	<u>2,980</u>	<u>150,474</u>
TOTAL LIABILITIES	17,708	162,535
MEMBERS' EQUITY	<u>411,399</u>	<u>339,943</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$429,107</u></u>	<u><u>\$502,478</u></u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Statements of Revenues and Expenses
and Changes in Members' Equity
Years Ended December 31, 2006 and 2005

REVENUES	<u>2006</u>	<u>2005</u>
Member Assessments	\$727,160	\$729,127
Collection and Legal Fees	22,185	19,743
Transfer and Refinance Fees	2,575	8,475
Interest Income	26,987	10,229
Club Dues	23,989	1,866
Club Social Hall Rental	18,199	9,217
Club Snack Bar Income	6,454	6,669
Club Apartment Rent	8,400	6,300
Tennis Court Fees	2,976	2,975
Other Revenue	7,249	11,732
TOTAL REVENUES	<u>846,174</u>	<u>806,333</u>
 EXPENSES		
Club / Recreation Center (Schedule 1)	326,194	352,809
Maintenance and Services (Schedule 2)	302,326	309,301
General and Administrative (Schedule 3)	146,198	116,346
TOTAL EXPENSES	<u>774,718</u>	<u>778,456</u>
Excess/(Deficiency) of Revenues Over Expenses	71,456	27,877
Members' Equity - Beginning of Year	339,943	300,199
Net Asset Transfer - Memorial Northwest Swim and Racquet Club, Inc.		11,867
MEMBERS' EQUITY - END OF YEAR	<u><u>\$411,399</u></u>	<u><u>\$339,943</u></u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Schedules of Expenses

Years Ended December 31, 2006 and 2005

Schedule 1	2006	2005
Club / Recreation Center		
Access Cards	5,136	14,254
Cable TV	749	581
Clubhouse and Grounds	52,455	54,041
Concrete Walkways		7,575
Electric	53,239	32,979
Electrical and Lighting	6,720	12,550
Fitness Center	24,380	12,843
Gas	642	1,097
Insurance	28,409	24,111
Painting		19,780
Payroll	35,380	32,848
Pool Furniture	1,099	20,417
Pool Operations	68,911	71,383
Property Survey	2,200	
Snack Bar Ice Machine		2,734
Snack Bar Purchases	6,896	2,972
Social Activities	11,845	8,912
Storage Building	5,709	
Structural Inspection	1,845	
Telephone	3,155	3,087
Tennis Court Maintenance and Repair	12,616	13,859
Tennis Court View Deck		10,320
Title Insurance and Fees		2,130
Water	4,808	4,336
	<u>326,194</u>	<u>352,809</u>

See accountant's report.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Schedules of Expenses

Years Ended December 31, 2006 and 2005

Schedule 2	2006	2005
Common Area Maintenance / Services		
Electric and Street Lights	\$6,715	\$5,672
Entrances	7,930	
Landscape and Grounds	70,342	87,838
Mosquito Fogging	10,258	11,411
Security Patrol	202,713	198,386
Signs		355
Sprinkler System	484	2,092
Water and Sewer	3,884	3,547
	<hr/>	<hr/>
	302,326	309,301

Schedule 3
General and Administrative

Accounting and Audit	4,000	2,300
Bad Debts	6,370	
Bank Charges	735	290
Club Stock Refunds		2,650
Community Management	47,161	52,307
Income Tax	3,077	596
Legal Collections	27,925	28,198
Legal Deed Restrictions	50,056	3,260
Legal Other	4,126	1,655
Miscellaneous	1,792	3,354
Postage and Office	954	3,031
Property Tax Consultant		3,764
Property Taxes	2	14,941
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	146,198	116,346

See accountant's report.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Statements of Cash Flow
Years Ended December 31, 2006 and 2005
Increase/(Decrease) in Cash

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (Deficiency) of Revenues Over Expenses	\$71,456	\$27,877
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:		
Net Asset Transfer - Memorial Northwest Swim and Racquet Club, Inc.		11,867
(Increase) decrease in:		
Assessments Receivable	(9,280)	(14,827)
Income Tax Refund Receivable	154	
Prepaid Insurance	(1,653)	(4,266)
Increase (decrease) in:		
Accounts Payable	860	7,686
Payroll Taxes Payable	230	1,223
Income Tax Payable	1,577	
Allowance for Uncollectible Accounts		(5,500)
Assessments Received in Advance	<u>(147,494)</u>	<u>150,474</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	(84,150)	174,534
CASH FLOWS FROM INVESTING ACTIVITIES		
NET CASH PROVIDED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	(84,150)	174,534
CASH AT BEGINNING OF YEAR	464,411	289,877
CASH AT END OF YEAR	<u>\$380,261</u>	<u>\$464,411</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$0	\$0
Income Tax Paid	1,500	750

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Notes to Financial Statements
December 31, 2006

NOTE 1 – THE ASSOCIATION AND ITS SIGNIFICANT ACCOUNTING POLICIES

The Association

Memorial Northwest Homeowners Association is a Texas non-profit corporation that was chartered July 2, 1973. The purposes for which the corporation is organized are to provide maintenance of common areas, preservation, and architectural control of approximately 2,000 residential homesites, and to promote the health, safety and welfare of the residents within the subdivision, located in Spring, TX.

On January 28, 2005, Memorial Northwest Homeowners Association acquired the real property and improvements of Memorial Northwest Swim & Racquet Club, Inc. The property consists of 9.77 acres of land with improvements including swimming pool, tennis courts, clubhouse, playground and parking lot. The transaction was in essence a donation by the Memorial Northwest Swim & Racquet Club, Inc. of all of their real property, improvements and a small amount of cash to the Homeowners Association, who in turn paid off about \$20,000 of outstanding short term obligations of the Swim & Racquet club.

As part of the general membership vote to approve the acquisition, an increase in annual dues of \$175.00 for operation of the recreational facility was approved.

Basis of Presentation

The accompanying financial statements are presented using the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect the reported amounts and disclosure of contingent amounts in the Association's financial statements and the accompanying notes. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the current year presentation.

Member Assessments

Association members are subject to annual assessments. For 2006 these were \$371.00. This total amount represents \$196.00 for the maintenance fund (which has been constant for 11 years) that pays for security, maintenance of common areas and administrative expenses and the above mentioned \$175.00 voted by the general membership in 2005 to run and maintain the community recreation center. Assessments receivable at the balance sheet date represent fees due from owners. The Association pursues collection of delinquent accounts.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Notes to Financial Statements
December 31, 2006

NOTE 1 - THE ASSOCIATION AND ITS SIGNIFICANT ACCOUNTING POLICIES

Future Major Repairs and Replacements

The Association assumed responsibility for the previously mentioned recreation facilities effective January 28, 2005. The Association's other pre existing common property includes subdivision entrance monuments and landscaping.

The Association has not conducted a detailed study to estimate the remaining useful lives and replacement costs of the common property components (such as entrance monuments) that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.

The Association completed initial forecasts of likely improvements for the newly acquired club recreational facilities and estimated that the additional \$175.00 is sufficient to run and appropriately maintain the existing facility. Substantial initial catch-up maintenance and improvements were made and the facility has been in operation as an Association recreational facility since 2005. In early 2006, the Association nominated a long term planning committee to evaluate long term Association needs and develop options to refurbish, rebuild or construct a new recreational facility and make recommendations to the Association board. Currently, it is anticipated that this long term planning committee will bring recommended options to the Association board in mid to late 2007. The Association board will then hold open meetings for homeowner input and subsequently review and amend as appropriate. After a sufficient period of time to engage the neighborhood, the Association board will then bring to the general membership a combined recommendation for major improvements and / or new construction and the associated assessment increases to fund the recommended changes.

Income Taxes

The Association may elect annually to file its income tax return as either a qualifying homeowners association under section 528 of the Internal Revenue Code or as a regular corporation subject to section 277 of the Code. A determination is made each year as to which method will result in the lowest income tax. For the year ended December 31, 2005, the Association filed its return as a regular corporation. Membership income and expenses are not taxable, however, nonmembership income, such as interest, is subject to tax after deducting expenses attributable to the production of nonmembership income.